

Business

The glitch in Britain’s fintech revolution

The Chancellor talks up the UK’s potential in the industry, but its record still lags behind global rivals, reports *Lucy Burton*

The country’s fintech industry will “lead the world” into the fourth industrial revolution. Chancellor Philip Hammond made some bold predictions on the UK’s financial technology sector last week on the main day of the first International FinTech Conference.

Standing before Mark Carney, the Governor of the Bank of England, and Eileen Burbidge, venture capitalist turned UK fintech envoy, and hundreds of industry specialists in the grandiose surrounds of the Old Billingsgate Fish Market, Hammond did all that he could to highlight the Government’s commitment to this small but growing sector of the economy.

His forecast is the latest attempt by the Government to flaunt the country’s best bits following Brexit, with the Treasury last week ramping up its efforts to attract more investment into Britain by attempting to herald the sector’s success.

Pointing out that steam engines came from the West Midlands, steel production from Yorkshire, the first modern power station from Deptford, the first commercial oil refinery from West Lothian and the first commercial telegraph system from Euston, the Chancellor claimed that “British invention” will again lead an industrial revolution.

A key part of that revolution is fintech, the industry where finance and technology combine, which is already strongly supported by the Government and is said to be worth £7bn in the UK. The Financial Conduct Authority, the UK’s financial watchdog, has also worked hard to make itself fintech friendly so that start-ups choose to locate in London, notably by introducing a so-called “sandbox” – for a relatively new sector it is already developing its own jargon – so businesses can test products with temporary regulatory approval.

But despite the success of the sector – the UK’s largest IPO of 2015 was that of payments processor Worldpay, while money continues to roll in for new start-ups – there is one small glitch in Britain’s plan to be the world’s greatest fintech hub. Or rather two glitches. The US and China are already a lot stronger in this area, and continue to grow at a faster pace.

“There’s a lot of noise and no signal,” argues Legal & General chief executive Nigel Wilson, noting that America and Asia remain global leaders when it comes to technology products. “We have to be intellectually honest about how much progress we’re actually making.”

The obstacle isn’t that UK fintech firms are mere minnows – some of the many success stories include crowdfunding platform Seedrs, lending marketplace Funding Circle and online investment management service Nutmeg – but that the UK has a long way to go if it wants to lead this revolution, or even be viewed as a disrupter compared to its much bigger rivals.

Fintech firms in China and the US raised a combined \$13.9bn (£11.2bn) through venture capital last year out of \$17.4bn globally, according to industry body Innovative Finance, while UK fintech venture investment actually fell 34pc to \$783m.

The number of UK fintech patents filed to the World Intellectual Property Organisation last year also paled in comparison to China and the US, with data compiled by law firm EMW showing that just 89 patents were filed from the UK versus 4,523 in the US and 2,156 in China.

Brexit hasn’t helped. Just after Hammond outlined his hopes to make the UK the world’s fintech star, Skype’s first-ever employee, who is now the boss of money transfer service TransferWise – one of the country’s best-known fintech businesses – said that if he were to set his business up today, he would not have chosen London given the UK’s vote to leave the European Union.

“Other countries are looking at the UK and what the regulators are doing here and copying this very plainly,”



PAUL GROVER FOR THE TELEGRAPH

‘Going from start-up to scale-up requires huge levels of investment, talent and innovation. Fintech companies should see banks as customers, not competition’

said Taavet Hinrikus, pointing to the Bank of England’s fintech accelerator as one example. “Every city – Paris, Berlin, Singapore, New York – has started to talk about how they can become the fintech capital of the world.”

A number of things can be done to give the UK an edge, however.

For a start, leading UK universities could help. Legal & General’s Wilson, who studied at the Massachusetts Institute of Technology (MIT), points out that many of today’s technology giants were founded by graduates or students of US universities, but that UK counterparts seem to be falling behind.

Boston-based MIT, as an example, launched a graduate-level financial technology course two years ago, has its own fintech club, hosts an annual fintech conference, offers a mentorship scheme and has just started a fintech “hackathon” event with over \$13,000 in prizes.

“We need to get the universities much more encouraged in this stuff,” Wilson says. “We need to use [their] intellectual firepower.”

As the opportunities in the fast-growing sector become clearer, there are hints that this encouragement has begun. The University of Strathclyde is launching “Masters of Fintech” in September, introducing the 12-month course after research showed that fintech could create nearly 15,000 jobs in Scotland over the next decade.

“The Scottish financial sector needs to capitalise on fintech or miss out,” says Daniel Broby, director of Strathclyde’s centre for financial regulation and innovation, adding

that the course will give students “the essential skills and knowledge for a career in this field.”

UK fintech firms are also looking at ways they can improve education in the sector, with online lender Spotcap last week announcing a “fintech fellowship” to encourage graduates into the field. The fellowship will offer one student a year £8,000 towards a master’s degree or MBA, provided it is a fintech-related area of study such as engineering, finance, business or law and at a UK university.

But another reason the UK is viewed as falling behind larger competitors is that while there is a steady stream of eager start-ups, fintech “scale-ups” – large disruptive

businesses such as Uber in the taxi industry or Spotify in the music industry – are not really happening.

Ben Brabyn, the head of Europe’s largest tech accelerator Level 39, says that while it was a “noble aim” for the first wave of fintech start-ups to be “founded on the principles of bank-bashing and consumer empowerment”, it has made it hard for some of them to grow because they couldn’t tap into the big budgets and distribution networks of those banks.

“Making the transition from ‘start-up’ to ‘scale-up’ requires huge levels of investment, talent and innovation. We encourage fintech companies to see banks as customers, not competitors,” he says. “At Canary

Philip Hammond, the Chancellor, said at the International Fintech Conference, above, that Britain will ‘lead the world’ in the new industry. He was flanked by Bank of England chief Mark Carney and Eileen Burbidge, the UK’s fintech envoy, below

Wharf [where Level 39 is based] 30pc of the world’s financial services IT budgets are within a five-minute walk and it’s the entrepreneurs working in cyber security, blockchain, financial inclusion and other high-impact fintech sectors which will unlock this billion-dollar opportunity.”

For those that don’t want to couple up with a bank, there are also some potential changes to European legislation that could help fatten up certain start-ups, says Liz Brandt, the chief executive of business consultancy Ctrl-Shift adds.

The revised Payment Services Directive, a piece of European legislation which will impact the use of personal banking data, will offer “massive opportunities for fintech businesses” once it comes into force next January, Ms Brandt says, explaining that it will give firms more access to personal banking data with permission from the consumer. She believes this and the Open Banking Working Group, a UK initiative introduced ahead of the new rule, will “give the UK fintech sector the data lifeline necessary to grow”.

Fintech’s obsession with London also needs to change if the UK really wants to compete with the likes of the US, where the focus is not only on San Francisco’s Silicon Valley but also on Los Angeles, New York and Boston.

“We can’t have everyone thinking they’re Dick Whittington, coming to London for fame and glory, thinking that the paths will be paved with gold,” says Legal & General’s Wilson, urging the fintech community to loosen its focus on London’s Old Street roundabout. “Lots of stuff can be done elsewhere.”

The week ahead

Monday

Economics: Empire State manufacturing index (US)

Tuesday

Trading update: Ashmore Gp Economics: industrial production (US), NAHB housing market index (US), ZEW economic sentiment (Germany)

Wednesday

Full-year results: e-Therapeutics Interim results: Fenner, Associated British Foods Trading update: Burberry,



Primark owner ABF is due to report

Segro, Bunzl, Rentokil Initial, RELX, Rio Tinto AGM: Bunzl, Greggs Economics: Beige book (US), trade balance, final CPI (EU)

Thursday

Full-year results: Xeros Technology Group Interim results: Debenhams, Sky, Unilever

Trading update: Go-Ahead Group, Moneysupermarket.com, Evraz, Man Group AGM: Red Pharma, Essentra, Acacia Mining Economics: Philly Fed manufacturing index (US), CB leading index (US), consumer confidence (EU)

Friday

Trading update: Reckitt Benckiser Group Economics: Retail sales (UK), flash manufacturing PMI (US), flash services PMI (US), existing home sales (US), flash services PMI (EU) flash manufacturing PMI (EU), current account (EU),

Top 100 shares

Stock	Price	Change on week	52 week High	Low	Div Yld%	Mkt Cap £m	Stock	Price	Change on week	52 week High	Low	Div Yld%	Mkt Cap £m	Stock	Price	Change on week	52 week High	Low	Div Yld%	Mkt Cap £m	Stock	Price	Change on week	52 week High	Low	Div Yld%	Mkt Cap £m
3i	771	+25	775	455	2.9	7500.4	Croda Intl	3628	+136	3721	2754	2.0	4761.7	Lloyds Bk Gp	62½	-7	74	47½	4.9	44821.5	RSa Ins	597	+7	617½	425½	2.7	6090.6
Admiral	2029	+26	2288	1680	5.6	5778.2	DCC	7135	+35	8029½	5780	1.4	6337.1	Lon Stock Ex	3225	-11	3391	2259	1.3	11281.2	Sage Group	663½	+31	807½	573	2.1	7171.5
Anglo Amer	1170	-65½	1529	955½	—	16433.8	Diageo	2298	+16½	2348½	1737	2.6	57845.4	Marks & Spen	346½	+9½	448	255½	5.4	5634.6	Sainsbury	258½	-3½	294½	211½	4.5	5655.4
Antofagasta	835	-34	905½	394½	1.8	8231.9	Direct Line Ins	343½	-1	400½	323	7.2	4727.2	MediClinic Intl	759½	+12	1125	666½	0.9	5594.4	Schneider	3112	-2	3183	1960	3.0	7033.8
Ashhead Group	1652	-39	1764	797	1.4	8247.2	Expedit	1064	+21	1566	851	5.1	4226.2	Merlin Ent	486½	+6½	507½	316½	1.5	4940.5	Scottish Mrt Inv Trst	369½	+1	374½	245	0.8	5024.8
Ass Brit Fds	2709	+225	3442	1910	1.4	21446.5	Experian	1621	+4	1655	1224	1.9	15288.2	Micro Focus Intl	2536	+95	2540	1408	2.4	5819.2	Severn Trent	2444	+41	2526	2047	3.3	5760.8
AstraZeneca	4743	-50½	5505	3680	4.6	60027.5	Fresnillo	1641	+17	2057½	986½	1.5	12092.4	Mondi	1979	+31	1992	1240	2.4	7267.7	Shire	4585	+22½	5377	2707½	0.5	41572.4
Aviva	517½	+3½	570½	290	4.5	21054.0	GN	352½	-16½	379½	249½	2.5	6057.0	Morrison (Wm)	234½	+1	250	168½	2.3	5484.6	Sky	982½	+13½	1050	560	—	16889.3
Balcock Intl	885½	+3	1112	780	3.0	4477.1	GlaxoSmithKline	1647	+10	1745½	1363	4.9	80987.9	Natl Grid	1036	+3½	1148	888½	4.2	3747.7	Smith&Neph	1259	+23	1324	1064½	2.0	11017.0
BAE Systems	643	-6	657	464½	3.3	20435.8	Glencore	309	-12	347	124½	1.8	44486.9	Next	4193	+170	5705	3550	4.8	6166.1	Smiths Gp	1617	-17	1654½	1028	2.6	6394.4
Barclays	212½	-2½	267½	121½	1.4	36206.9	Hammerston	585½	+3½	604½	400	4.1	4644.1	Old Mutual	194½	+3	229½	163½	3.1	9608.5	Smurfit Kappa	2066	+9	2260	1503½	3.3	4892.3
Barrat Dev	572	+13½	603	326	6.9	5759.9	Hargreave Lans	1344	+15	1421½	1056	1.9	6374.8	PaddyPowerBet	8525	+115	10028½	6525	2.0	7171.5	SSE	1495	+8	1644	1369	6.0	15175.5
BHP Billiton	1269	-18½	1518½	768½	3.4	26802.2	Hilma Pharms	1919	+35	2703	1575	1.4	4605.2	Pearson	632½	-7	989½	552	8.2	5202.9	St James Place	1066	+36	1126½	521	3.1	5632.4
BP	471½	+1	521½	249½	6.8	92693.6	HSBC	643½	-10½	715½	392½	6.3	129096.0	Perstorp	2221	+75	2227	1170	6.1	6853.7	Standard Chart	709½	-32½	821½	470½	—	2341.1
Brit Amer Tob	5383	+26	5408	4072	3.1	100360.0	Imp Brands	3933½	+20	4154	3324	3.9	37710.9	Provident Fin	3123	-35	3402½	2125	4.3	4628.7	Standard Life	368½	414½	248½	5.4	7297.8	
British Land	652½	+16½	773½	500	4.5	6719.2	Informa	659	+16½	704½	480	3.0	5430.2	Prudential	1663½	-11½	180½	1096	2.6	43012.1	Taylor Wimpey	196½	+2½	211½	109½	6.1	6441.9
BT Group	313½	+1	457½	297½	4.6	31186.1	IntContl Hotels	3934	+10	4029	2504	6.0	7806.4	Randgold Res	7540	+130	9820	5410	1.1	7091.1	Tesco	181½	-8½	219½	143½	—	14837.8
Bunzl	2366	+20	2587½	1949½	1.8	7941.0	Intl Cons Air	540	+16½	576½	281½	3.0	11379.6	Reckitt Benck	7444	+57	7786	6496	2.1	52152.3	TUI AG	1094	1094	1231	813	4.9	6422.2
Burberry	1763	-10	1838	1039	2.1	7728.6	Intertek	4063	+65	4073	3037½	1.5	6557.3	RELX	1583	+5	1594	631	2.3	17029.7	Unilever	4033½	-7	4088	301½	2.7	51768.3
Carnival	4558	-59	4647	3075	2.8	9726.2	Intu Proprs	287½	+1	320	254½	4.9	38917.7	Rentokil Initial	253½	+2½	253½	164	1.3	4650.3	Unit. Utilities	1014	+11	1065½	853½	3.8	6914.4
Centrica	216½	-1½	248½	195½	5.5	11874.3	ITV	217½	+1½	244	141	5.6	8751.2	Rio Tinto	3121	-134	3718½	1853	4.3	43163.9	Vodafone	204	-1	240½	138½	6.1	54399.0
Coca-Cola HBC	2097	+16	2106	1286	1.8	7624.3	Johnson Matit	3016	-13	3568	2764	2.4	5837.0	Rolls Royce	828½	+11½	875½	588	1.4	15245.5	Whitbread	4175	+15½	4402	3283	2.2	7655.9
Compass	1551	+24	1559	1203½	2.0	25503.9	Kingfisher	327	+3½	390½	269½	3.2	7286.1	Royal Bk Scot	228½	-9½	260½	148½	—	27048.0	Woolsey	4926	-22	5285	3489	2.1	12459.3
ConvaTec Group	289½	+9½	291	213	—	5641.7	Land Secs	1117	+28	1211	810	3.3	8832.7	Royal D Shell B	2192½	-53	2403½	1646	6.8	82119.8	Worldpay Group	300	-1½	3201	247½	0.7	6090.0
CRH	2701	-99	3342	1700	2.0	22567.3	Legat&Gen	251½	+5½	257½	160½	5.7	14983.2	Royal Mail	424½	+8½	549	397½	5.3	4241.0	WPP	1738	+7	1928½	1204	3.3	22226.9